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UNITED DRUG COMPANY

EXECUTIVE OFFICES, BOSTON, U.S.A.

43 LEON STREET

BOSTON, MASS.

February 15, 1926.

To the Stockholders of the United Drug Company:

It affords me satisfaction and pleasure to enclose herewith copy of the Income Statement and Balance Sheet of your Company as of December 31st, 1925.

It records a year of substantial achievement and progress.

Sales in United States amounted to $78,145,594.43, which surpasses all previous sales figures and represents an increase over 1924 of approximately $8,000,000.

Net income amounted to $8,009,543.06, which establishes a new high record of earnings and represents an increase over the normal profit of 1924 of approximately $1,250,000.

After setting aside reserves for Federal Taxes earnings on the Common Stock amounted to $12.27 per share.

The foregoing figures of net income and earnings on our Common Stock represent the income actually received by the Company, and is without giving effect to our part of the undistributed earnings of our investments in Great Britain and Canada, which undistributed earnings amounted to approximately $2.50 per share additional on our Common Stock.

The plan to consolidate Liggett's International Limited referred to in my previous annual letter was accomplished through the acquisition of all the outstanding Common and Preferred stocks of that Company, and the United Drug Company is now the direct owner of the investments in the English and Canadian companies, formerly held by Liggett's International. These investments have substantially enhanced in value during the year and the outlook for their future operations is most favorable. This consolidation accounts for the increase in the amount of First Preferred Stock outstanding. The Second Preferred Stock that has been previously outstanding has either all been converted into Common or called for payment.

I do not believe the other items appearing on the Balance Sheet require particular comment. The 5-1/2 year 8% Gold Notes outstanding to the amount of $1,962,500. mature June 15th of this year, for the retirement of which you will note there is ample cash on hand.

The Liggett Company (our retail subsidiary) is actively expanding and has opened during the year sixty-one (61) new retail drug stores, and has closed twelve (12) on account of expiring leases or duplications, or a net increase of forty-nine (49) stores. Notwithstanding the abnormal expenses incident to opening so many new stores, this subsidiary company completed the year with a substantial increase in net profits over the previous twelve months. Many of these stores were opened during the latter part of the year and should contribute materially to the advancement of the Company's interests in 1926.

The opening up of the Pacific Coast has given our retail company a fertile field for exploration, and twenty-one (21) Liggett Stores are now operating in that section, with eleven (11) additional leases under contract. This expansion to the Coast greatly strengthens the distribution of our trade marked products in that important field.

Our factories have sucessfully and expeditiously handled the largest production in their history, and are amply equipped and prepared for future growth.

Strengthened by a preceding year of conspicuous advancement and with sound business conditions prevailing throughout the country, we look forward to the year 1926 with confidence.

Sincerely,

Louis K. Liggett

President.

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President.